

Tax Cuts and Jobs Act: Things Learned During the 2019 Filing Season

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NSTP's Suggested References

- **NSTP Webinar NN.1:** “Understanding the Opportunities and Challenges Of The Tax Cuts and Jobs Act” at <https://www.nstp.org/webinar.php>
- **IRS Publications:**
 - **334** Tax Guide for Small Business
 - **535** Business Expenses
 - **538** Accounting Periods and Methods
 - **946** How to Depreciate Property



Impacts Every Taxpayer and Entity

- Rates and Brackets at **all** levels and entities
- Temporary repeal or suspension of many individual provisions during **2018-2025**
 - ❖ **Exemptions/Taxes/ Miscellaneous Itemized deductions**
- Permanent provisions for C Corporations and business entities
- Expansion of deductions for acquisition of fixed assets



Impacts Every Taxpayer and Entity

- Creation of new credits
- Creation of a new **§199A deduction** for taxpayers with an investment in a qualified trade or business
- Creation and expansion of items *excluded* from gross income
- **§529 Qualified Tuition Programs (QTP)**



Impacts Every Taxpayer and Entity

- **§6695(g)** Expansion of due diligence requirement on **Form 8867**
- **§5000A** Requirement to maintain Minimum Essential Coverage for individuals and families: **ACA**
- **§1031** Like-kind exchange transaction limitations
- **§55** Alternative Minimum Tax (**AMT**) for individuals and C corporations



Statistics of Income Bulletin

- **Number of individual returns filed:**
 - ✓ **2016: 150,315,944**
 - **2017: 153,095,659**
- **Personal & Dependency Exemptions:**
 - ✓ **2016: 290,844,371 = \$1,150,899,302,000**
 - **2017: 294,319,812 = \$1,162,329,182,000**
- **Basic Standard Deductions:**
 - ✓ **2016: 103,247,579 = \$868,978,191,000**
 - **2017: 104,329,506 = \$880,849,982,000**



Temporary Changes to Provisions

- Itemized Deductions *elected* on Schedule A:
 - ✓ 2016: 45,038,934 = \$1,220,903,188,000
 - 2017: 46,830,618 = \$1,320,720,596,000

- Taxes Paid:
 - ✓ 2016: 44,695,688 = \$546,609,973,000
 - 2017: 46,414,330 = \$595,925,967,000



Temporary Changes to Provisions

- **Child Tax Credit:**
 - ✓ **2016: 22,309,767 = \$27,082,922,000**
 - **2017: 22,356,214 = \$27,251,921,000**

- **Additional Child Tax Credit:**
 - ✓ **2016: 19,174,000 = \$25,717,612,000**
 - **2017: 18,701,646 = \$25,011,250,000**



Temporary Changes to Provisions

- **Alternative Minimum Tax:**
 - ✓ **2016: 4,594,902 = \$28,619,816,000**
 - **2017: 5,044,436 = \$30,661,429,000**



Statistics of Income Bulletin

- Returns with an **income tax** liability:
 - ✓ **2016: 100,186,946** of 150,315,944 = **66.65%**
 - **2017: 103,954,444** of 153,095,659 = **67.90%**
- Returns with a **tax** liability:
 - ✓ **2016: 104,714,007** of 150,315,944 = **69.66%**
 - **2017: 108,507,231** of 153,095,659 = **70.88%**



Individual Provisions

- **§1** Rates & Brackets
- **§1(f)(3)** Indexing: **Chained Consumer Price Index** for all **Urban Consumers (C-CPI-U)**
- **§1(j)(5)** Long-term capital gain rates
- **§1(g)(3)(B)** Kiddie Tax assessment based on estate and trust rates in **§1(j)(4)**



Individual Provisions

- **§151** Personal & Dependency Exemptions
- **§63(c)(7)** Standard Deductions
- **§213** Medical expense deductions
- **§164** State and Local Taxes (**SALT**)



Individual Provisions

- **§163** Home Mortgage Interest Deduction
- **§67** Miscellaneous Itemized deductions subject to the **2% AGI** limitation
- **§24** Child Tax Credit (**CTC**)
- **§24** Credit for **Other Dependents (COD)**



Individual Provisions

- **§71** Alimony Income
- **§215** Alimony Deduction
- **§5000A** shared responsibility penalty reduced to **Zero** for months *beginning after 2018*
- **§274** Allowance of meals for the convenience of the employer



Individual Provisions

- **§55** Alternative Minimum Tax (AMT) eliminated for most taxpayers
- **§68** Phase-out of the overall itemized deduction amount (PEASE Provision)
- **§2010(c)** Estate Tax Lifetime Exclusion
- **§274(j)** Exclusion of employee achievement awards



Individual Provisions

- **§132** Employer Moving Expense reimbursement *exclusion*
- **§217** Moving expense *deduction*
- **§132(f)** Qualified Transportation Fringe Benefits
- **§108(f)(5)** Exclusion from gross income on student loan debt discharge



Individual Provisions

- **§529(c)(7)** expands the use of **§529** QTP funds to include tuition and fees for enrollment or attendance in elementary and secondary education
- **§529 QTP** rollovers allowed for **§529A** ABLE Programs
- **§408A(d)(6)(B)** repeals the recharacterization of a Roth Conversion back to a traditional IRA
- **§402(c)(3)** rollover period increased for Qualified Plan Loan Offset Amounts to due date plus extensions



Individual Provisions

- **§6695(g)** Due diligence requirement for Head of Household filing status
- **§112** Combat Zone treatment in Egypt's Sinai Peninsula
- **§165** Casualty or Theft Loss: Presidentially declared disaster area
- **§170** Charitable contribution AGI limitation



Trade or Business Provisions

- **§11** Corporate Tax Rates lowered to **21%** including **Personal Service Corporations (PSC)**
- **§179** Expense *election* deduction amounts increased
- **§179** property includes certain Real Estate
- **§168(k)** Bonus depreciation increased to **100%**



Trade or Business Provisions

- **§448** Cash basis accounting method allowed if gross receipts in 3 prior years are **\$25M** or less
- **§460** Inventory accounting rules exempts certain taxpayers to account for inventory if gross receipts in 3 prior years are **\$25M** or less
- **§163(j)** Net Business Interest Deduction for taxpayers with *greater than* **\$25M** in gross receipts



Trade or Business Provisions

- **§172 Net Operating Loss (NOL)** for individuals and businesses
 - Removes 2 year carryback
 - Unlimited carryforward with **80%** limitation
- **§461(I)(1)(B)** Limitation on excess business losses of noncorporate taxpayers: **Form 461**
 - **\$250,000** single
 - **\$500,000** married joint



§199A Qualified Business Income (QBI)

- The net amount of *qualified items* of income, gain, deductions and losses with respect to any qualified trade or business
- Net amount of all combined **QBI** from:
 - ✓ Sole-proprietors, Partnerships, S-corporations, Estates and Trusts, **plus**
 - ✓ Publically Traded Partnerships (**PTPs**) and Real Estate Investment Trusts (**REITs**)



§199A Qualified Business Income Deduction

- Qualified **B**usiness **I**ncome (**QBI**) Deduction
- *The lesser of:*
 - **20% of the combined QBI** or
 - 20% of **taxable income** over the sum of any net capital gain as defined in **§1(h)(11)**



Phase-out of the 20% Deduction

- *Taxable income* before the **QBI** deduction *less* a threshold amount based on filing status
 - **Single:** \$157,500 to \$207,500* (**\$50,000**)
 - **Married Joint:** \$315,000 to \$415,000* (**\$100,000**)

*Indexed to inflation

- **Note:** Sec. 6662(a) *accuracy related penalties on underpayments* are changed to the *greater of:* **\$5,000** or **5%** of the tax that should have been reported



§199A Qualified Business Income Component

- Qualified Business Income Deduction
- *The lesser of:*
 - **20% of the QBI** or
 - The *greater of* :
 - **50%** of the “W-2 wages” paid **or**
 - **25%** of the “W-2 wages” paid **plus 2.5%** of the unadjusted basis of qualifying assets used in the qualified business (**UBIA**)



Specified Service Trade or Business (SSTB)

- Involves the performance of services in the fields of:
 - ✓ health, law, **accounting**, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, etc. or
 - ✓ **any** trade or business where “*the principal asset*” of such trade or business is the “*reputation or skill*” of one or more of its owners or employees



Trade or Business Provisions

- **§1031** Like-kind exchange transactions limited to real estate for real estate in the United States
- **§280F Annual** depreciation limitations for luxury autos
- **§168(k) Bonus** depreciation for luxury autos under **§280F**



Trade or Business Provisions

- **§274** listed property rules no longer includes computers and peripheral equipment
- **§168(e)(3)(B)** Cost recovery of certain Farm Equipment and Machinery from 7 years to 5
- **§55** Corporate AMT repealed
- **§45S** Credit for employer paid family and medical leave **(2018-2019)**



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NSTP Thanks You For Attending

- We invite you to come see us at our booth in the Exhibit Hall so that you can learn more about the **“Benefits of Membership” in NSTP**

Visit us in the **Exhibit Hall** and pick up our handout on this presentation and our presentation on **“Properly Substantiating the §199A Qualified Business Income Deduction”**

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